

Department of Agriculture, Trade and Consumer Protection

Division of Marketing

Agricultural Development & Diversification Program (ADD)

1999 Grant Project Final Report

Contract Number: 14036

Grant Project Title: A Feasibility Study for an Apple Processing Plant in New Glarus: The Sugar
River Distillery Project (Phase 1)

Project Beginning Date: July 1, 1999 Project End Date: June 30, 2000

Amount of Funding Awarded: \$18,220

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Note: The Business Plan is confidential.

EXECUTIVE SUMMARY

From the Business Plan of Sugar River Distillery, Inc.

Business Concept

The Sugar River Distillery, Inc. will produce alcohol and non-alcohol beverages made primarily from Wisconsin-grown apples in the vicinity of New Glarus, Wisconsin. It will market those fruit-based beverages both directly to consumers through an on-site retail outlet and through established Midwestern wholesaler/retailer channels. In addition, the Sugar River Distillery will deliver a superior tourism experience to its visitors and offer them product samples. As a direct result of the tourism experience and product samples, visitors to the Sugar River Distillery will generate a significant portion of the Distillery's total sales revenues.

The primary mission of the Sugar River Distillery is to produce super premium alcohol and non-alcohol beverages made from Wisconsin apples while providing a superior entertainment and educational tourism experience to visitors. The distillery will produce the following beverage products:

- "sweet" apple cider (non-alcohol);
- "hard" apple cider (a beverage similar in alcohol content to beer or wine);
- apple brandy;
- apple-based liqueur;
- apple-based cordial (made by blending apple brandy with "sweet" apple cider); and
- other fruit-based eau-de-vie (the clear fruit brandy made from fermented fruit juice), brandies, and liqueurs.

In addition, the Sugar River Distillery will offer self-guided yet inter-active tours of its facility in order to educate visitors about the processes used and products made at the Distillery. The underlying purpose of the distillery's tourism program is to generate sales for its beverage products and apple-related items for sale in its gift shop.

The major markets for the products made by the Sugar River Distillery are the major metropolitan areas of Chicago, Madison, and Milwaukee as well as the surrounding Midwestern states of Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin.

Current Situation

The Sugar River Distillery was founded by Lorin K. Toepper, Ph.D., as an S corporation in the State of Wisconsin in March of 1999. Dr. Toepper received an Agricultural Development and Diversification grant from the Wisconsin Department of Agriculture, Trade, and Consumer Protection in 1999 to explore the feasibility of creating a distillery in the New Glarus area to primarily process Wisconsin grown apples into an apple brandy. Having completed that study, the Sugar River Distillery is about to make firm commitments to begin operations in the fall of 2001.

While the distilled spirits field is currently dominated by a few large companies and a growing number of micro-distilleries, research shows that the situation is ripe for a new distillery with a new approach in the Midwest. The Sugar River Distillery believes it can successfully enter the market by offering a premium apple brandy that is rich in texture, smooth on the palate, and filled with apple aromas. This differs from both domestically produced applejack and apple brandy as well as imported French Calvados.

Domestically produced applejack uses high quantities of neutral spirits that are blended with smaller quantities of apple brandy and is produced using large, industrial stills. This process decreases the aromas associated with the apples and the finished product differs little from traditional brandies whose qualities are harsh and thin as well as manipulated using additives such as caramel coloring. As a result, Applejack is not accepted within the marketplace as a true apple brandy and can attribute its minor success only due to a large distribution network, lack of competition, and consumer ignorance.

Only two micro-distilleries currently produce a true brandy made from apples in the US: Clear Creek Distillery in Portland, Oregon and Westford Hill Distillers in Ahsford, Connecticut. Clear Creek's product is distributed nationally while the Westford Hill's product is only available within Connecticut. The Sugar River Apple Brandy will differ from the products of these other two distilleries by using a blend of "heritage" or "antique" cider apples instead of the more common "table" apples that they currently use. In addition, the Sugar River Distillery will exploit its geographic advantage and capitalize on its proximity to the market that consumes the most Cognac in the US (Chicago) and the state with the highest per capita consumption of brandy (Wisconsin).

The apple brandy produced by Sugar River Distillery will differ from French Calvados in that it will use higher quality fruit with better levels of sugar and acidity as well as superior fermentation techniques. The production of Calvados in France is highly controlled and regulated by their government which dictate types of apples to be used, fermentation methods, yeast strains, etc. Most of the laws were written at the turn of the century and force the producers of Calvados to maintain an out- dated and inefficient production process. The Sugar River Apple Brandy will deliver a beverage of higher quality than the French-produced Calvados at a lower price.

The Sugar River Distillery believes that regional buyers in the Midwest will find the competitive benefit of our products compelling enough that it will be able to build sales quickly and establish a solid market position, especially in Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin. The Sugar River Distillery has conducted focus groups and spoken with retailers to confirm that customers are interested in our new approach. A summary of those focus groups and interviews with retailers is included in the market analysis section of the business plan.

There are several key factors that can be identified as being particularly important to Sugar River Distillery's ability to succeed. Those factors include the:

- consistent availability of high quality and low cost fruit, especially "heritage" or "antique" cider apples;
- ability to develop alcohol and non-alcohol apple beverages that closely match the customer's needs and to successfully differentiate those products from both domestic and foreign competition;
- unique talents of key personnel; and the
- appeal of the distillery as a unique tourism experience

Financial Situation/Needs

An Agricultural Development and Diversification Grant of \$15,000 in FY 1999-2000 was awarded to Destination Development, Inc. by the Wisconsin Department of Agriculture, Trade, and Consumer Protection to explore the feasibility of producing a brandy made from Wisconsin apples. An in-kind match of \$42,000 was committed to the project by Destination Development. Bringing the total investment (capital and "sweat equity") to-date in the project to approximately \$57,000.

The results of the feasibility study suggest that the Sugar River Distillery would be financially viable in 2005. In order to begin Phase Two of production and marketing, additional grant funds from the Agricultural Development and Diversification program are required to purchase the necessary quantity of apples and lease needed apple crushing, fermentation, distillation, and aging equipment and supplies as well as suitable production space for Years 2001 and 2002.